LUCIDUM LEARNING

KWIK

Knowledge - I wish I Knew

Insurance – Comes at a Premium

Author: **Michael Duncan**

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Fun Fact: Short-term insurance has existed for a long time; the earliest form thereof can be traced back to ancient Babylon merchants in 4000-3000 BCE. Insurance is a means of using the premiums from many insured parties to pay for the losses of a few. Over the years, many insurance principles have been introduced. If you don't know what they are, read on.

This **KWIK series** aims to start conversations amongst individuals, social groups, and in organisations. We share practical knowledge – built up over decades, and which would have helped us if we knew it earlier. We believe that people between 25 and 45, if they have access to this knowledge, are ideally placed to lead in rebuilding South Africa.

Think About

- Do you understand the insurance principles that have developed over time, including:
  - Utmost Good Faith?
  - Insurable Interest?
  - Indemnity?
  - Proximate Cause?
  - Contribution?
  - Subrogation?
  - Loss Minimisation?
  - Premium Payment?
  - Defined Period and Cover?
- Do you understand why these insurance principles cannot be ignored and why they MUST be complied with before an insurer will respond to a claim, either in full or in part?
- As a risk manager, do you understand how to assist your organisation to implement the risk response strategies that will support your insurance programme and ensure that your policies respond when risks materialise?

The following is a helpful explanation of critical insurance principle that risk managers should understand and implement:

- **Utmost Good Faith:** the Insured must disclose all material facts truthfully; if you lie or hide information, your claim will be rejected.
- **Insurable Interest:** the Insured must have a financial or other interest (such as an interest under a contract) in the subject matter of the insurance; you cannot randomly insure something in which you have no interest in law.
- **Indemnity**: the Insured should be placed in the same (not better) financial position they were in before the loss; i.e. if you drove an old vehicle before an accident, you will be paid out for the value of an old vehicle. Exceptions include personal accident insurance.
- **Proximate Cause**: the dominant cause of the loss will determine if there is cover under the policy; e.g., looting following a fire will not normally be claimable under a fire policy, but could be covered by SASRIA.
- **Contribution**: where more than one policy covers the same risk, the Insured cannot claim the full amount from each Insurer. (Refer also to the Principle of Indemnity). Normally, each policy will contribute to the claim proportionately.
- **Subrogation**: once a claim has been settled, the Insurer is legally entitled to recover from a negligent third party; if you interfere with this right of the insurer through your engagements with such negligent third party your claim may be rejected.
- **Loss Minimisation**: the Insured must act as if uninsured and take all reasonable steps to minimise the loss or damage if an incident occurs; risk managers must align corrective controls (those that address potential consequences/impacts of a risk) to this principle.
- **Premium Payment**: coverage is conditional on the Insured having paid the premium within the specified timeframe.
- **Defined Period**: only events occurring, or in some instances claims made, within the policy period are covered.

Practical Tips – The Six Cs

1. **Contract**: Make sure you understand your insurance contract fully by asking your broker to explain any clauses you are unsure of or which are too technical.
2. **Cost Benefit Analysis**: Work out if the item you want to insure is worth insuring based on the premium *versus* the amount insured.
3. **Commitment**: Your insurance premium is a commitment over time, and you must ensure that you have the means to honour the commitment for the insured period.
4. **Cancellation**: In times of difficulty, you may be considering cancelling your insurance. Talk to your broker before cancelling to understand both the short-term and long-term impacts of your decision.
5. **Communicate**: Notify your insurer of any material changes in the risk profile of your insurable interest. Approach your insurer to make payment arrangements rather than defaulting on your premiums or allowing your policy to lapse.
6. **Cover**: Make sure that you are adequately covered. No insurance may be better than having the wrong insurance.

- We provide coaching and mentoring sessions for young leaders wishing to equip themselves with knowledge to make a difference in society.
- Sessions take place face-to-face or online, one-on-one or in groups – as suitable for participants.
- Requests for topics to be covered in this series are welcome.
- Other Lucidum Learning resources are available on our website at www.lucidum.africa.

Contact Us

www.lucidum.africa

Michael Duncan
+27(0)83 626 3021
michael@lucidum.africa

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